



**Auditor-Controller Department  
Key To Achieving Excellence  
In County Government**

**Madera County Grand Jury  
Final Report 2022-2023-04  
June 19, 2023**

**Summary:** Efficient and effective government operations in Madera County rely heavily on the Auditor/Controller (A/C) Department, which is involved in many of the County's financial activities. In summation, the activities of the A/C Department combine to promote and support accountability across County entities. Internal auditing is one of the many functions of the A/C Department. When performed consistently this activity can play a critical role in achieving efficient County processes by identifying risks and operational deficiencies. The failure to perform in-depth internal audits results in increased exposure to the County of operational and financial risk. Delivery of payroll to the employees of the County is one of the most critical and sensitive functions of the A/C Department. Computer software plays a key role in this process, and its reliability and ease of use are critical in delivering timely and accurate payroll services to approximately 1700 County employees. Failure to fully understand the capability of a software program and/or its supplier before purchase and implementation can have a substantial negative impact on both individual employees and County operations.

**Background** The A/C is the chief accounting and disbursing officer of the County and performs a wide variety of finance-related activities impacting all departments in the County government. These activities include maintaining the accounts of County government, School Districts, and most Special Districts, as well as compiling County and Special District budgets. Taxation-related functions of this department include tabulating the assessed valuation of property, compiling tax rates, preparing the tax roll, controlling accounts for current and delinquent taxes, and maintaining property inventory records. The A/C issues checks on behalf of the County including disbursement of County payroll to the employees of Madera County. The A/C is also involved in ensuring that relevant state-mandated audits and reports are performed and filed in a timely manner. These include reports such as the Comprehensive Annual Financial Report.

**Internal Auditing Function** The A/C Department is additionally responsible for performing internal audits of County departments and activities in order to provide assurance that internal

controls are being followed and County assets are being effectively managed. These audits range in scope from minor cash audits up to and including in-depth audits wherein findings are identified, and recommendations proposed to improve operations.

In consideration of the wide range of responsibilities above, the efficient functioning of the A/C Department is vital to the County government in order that it may fulfill its mission to provide the highest quality of government services and exemplify the core values stated in the 2023 Madera County Strategic Plan: *Professionalism, Loyalty, Accountability, Compassion, and Excellence.*

In recognition of the value of internal auditing to efficient government, the Board of Supervisors (BOS) on December 20, 2016, passed **Resolution 2016-315** establishing an Internal Audit Committee. Through its creation by the BOS, the committee and its activities were subject to the Brown Act requiring public notice and meetings. The adopted resolution further defined both the purpose and membership of each committee. The Internal Audit Committee thus formed would be responsible for several aspects of internal auditing, including reviewing audit reports, review of the Annual Audit Schedule prior to its submission to the BOS, audit follow-ups, and corrective action implementation, and reporting to the BOS on issues as necessary. Membership of this committee was composed of the Chair and Chair Pro-Tem of the BOS, the County Administrative Officer, the Assistant County Administrator, the Auditor/Controller, the Assistant Auditor/Controller, and the Chief Internal Auditor.

Barely two years after its formation, the Internal Audit Committee was dissolved on October 23, 2018, when the BOS passed **Resolution 2018-139** contained within the consent agenda. This resolution also authorized the A/C to create a new internal audit committee through policies and procedures internal to the A/C Department. Ultimately the A/C did create a new internal audit committee - its membership consisting of the same county officials as the Internal Audit Committee just dissolved by the BOS. The resolution further affirmed the BOS support for the value of the internal audit function. However, the resolution also clearly specified that a new internal audit committee, if formed by the A/C, "*would not be subject to the Ralph M. Brown Act.*" This would exempt the new internal audit committee from the Brown Act requirements of public, meetings, agenda/minutes postings, and public discussions. Following the December 18, 2018, BOS meeting discussing the highly critical findings of the Waste

Disposal Services Audit, the Madera County Grand Jury (MCGJ) found no further mention of internal audit plans or results during any subsequent public BOS meetings, agenda postings, or consent calendars.

***Payroll Function*** The A/C Department is responsible for paying the County payroll to the employees in a timely, accurate, and efficient manner. Closely related activities include the preparation and submission of monthly, quarterly, and annual reports for the Public Employees Retirement System, as well as State and Federal agencies. In 2020, management-level personnel from both the A/C Department and the Human Resources Department collaborated and brought to the County a new payroll system to replace an older system. This new payroll system was offered by NEOGOV in the form of an additional service subscription to add functionality to a NEOGOV system already in use by the HR Department for employee recruiting and onboarding. The old payroll system was believed to be inadequate and unable to support the needs of Madera County going forward.

### **Methodology**

- Inspected previous Grand Jury Reports focused on the A/C Department
- Interviewed A/C Department and HR Department personnel.
- Reviewed Madera County Strategic 2023 Plan
- Attended Board of Supervisors meetings
- Viewed archived decision-making BOS meeting recordings.
- Reviewed supporting documentation and staff reports related to BOS resolutions impacting the department.
- Studied Department's organizational chart changes.
- Surveyed Department's website presence
- Located and reviewed numerous best practices for Enterprise Resource Program conversions.
- Reviewed State of California Accounting Standards and Procedures for Counties, 2022 Edition

## **Discussion**

***Internal Auditing Performance:*** As clearly stated in Board of Supervisors ***Resolution 2016-315*** of December 2016, the value of internal auditing lies in its independence and objectivity, *“designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.”* The resolution further states *“...public officials, government managers, and private citizens want and need to know not only whether government funds are handled properly and in compliance with laws and regulations, but also whether public programs are achieving the purposes for which they are authorized and funded, and, whether they are doing so efficiently, effectively, and equitably...”* This language clearly underscores the importance of overall risk management in pursuit of efficient and transparent government operations.

Risk assessment and management is an important process for any government activity. With proper implementation and consistent use, it provides a systematic approach to identifying risks across County departments and functional activities. This can result in greater awareness of operational risks throughout an entity’s operations. It can improve the ability of management to prioritize these risks and subsequently direct resources as necessary to reduce risk and address operational deficiencies. It can also improve transparency.

The MCGJ reviewed the internal audit activities of the A/C Department for the years 2016 through the 3rd quarter of 2022 and found the implementation and use of a Risk Assessment worksheet beginning in 2016 and continuing up to 2021. Each Risk Assessment worksheet listed and scored the County activities subject to potential internal audit. The purpose of the Risk Assessment worksheet is to aid management in viewing and judging these activities in consideration of eight separate and weighted categories, then assign a risk rating of “High,” “Mid, or “Low,” across the categories. As presented in each of the Annual Audit Schedules, the categories with their respective weightings include:

Risk Factors	Weight
1. Complexity of Operations	10%
2. Regulatory Compliance	10%
3. Turnover of Key Personnel	15%
4. Time Expired Since Last Audit	10%
5. Board of Supervisors / Management Concern	20%
6. Public Image	10%
7. Rapid Growth	10%
8. Financial Exposure	15%

Taken together with the assigned High/Mid/Low rating, an “Inherent Risk Score” for each County entity is generated ranging from 0 to 30 on a 30-point scale, with 30 representing the highest possible risk. County entities receiving an Inherent Risk Score of 24 or higher were designated as being “Selected for Audit.”

The MCGJ’s review of Risk Assessment worksheets encompassing the years 2016 through 2021, revealed that of the 32 County entities selected for audit, only three were audited by the A/C Department during that period. This represents less than 10 percent of those entities designated as “Selected for Audit” actually audited. Many of the entities selected for audit were repeatedly carried forward to subsequent years without ever being audited. In some years selected activities were, with management justification noted in the worksheets, intentionally delayed, or not audited due to other priorities. However, in most cases, no audits were ever subsequently produced during the period examined by the MCGJ. Below are examples of County activities repeatedly identified in the Risk Assessment worksheets as “selected for audit,” with accompanying explanations, but never having received an in-depth audit by the A/C Department:

- **Payroll** - *“High-risk ranking, known issues among departments, high exposure for risk through overtime, estimated 15K per month overpayment due to departments not submitting changes on time. HR delays as well.”*
- **Behavioral Health Services Administration** - *Budgeting significantly in “excess of actual costs. Budget controls no longer in place. This matter will be discussed with the Audit Committee to establish its importance.”*

- **Code Enforcement Division** - *“Department received a higher risk ranking due to unwillingness to provide details on code enforcement issues. Vehicle Abatement Code Enforcement actions may be poorly documented. As well as contracting outside services for inspections \$435K.”*

- **Purchasing** - *“Procurement (Bid Process), Purchase Agreements, and Contracts are at risk for management override of controls. However, more urgent risk areas are present.”*

The examples above are provided to illustrate the value of the Risk Assessment worksheets and their use in identifying and prioritizing internal audit activities. Management has the discretion necessary to determine which activities should ultimately be audited - taking into consideration the resources available to perform value-added in-depth internal audits. In each of the years surveyed by MCGJ, a formal Audit Schedule was published by the A/C Department, with the stated mission:

***“Promoting transparency, efficiency, and effective internal controls across county operations.”***

Each published audit schedule included a list of planned audits, derived with inputs from management and the Risk Analysis worksheet for each year. The MCGJ reviewed the Annual Audit Schedule for each of the years 2016 through 2022 and found only 12 instances where the planned in-depth audits identified in the Audit Schedule aligned with the 32 items selected for audit in the Risk Assessment worksheets. A further review of the annual audit schedules revealed that of the 29 in-depth audits planned only eight in-depth audits were produced.

In those instances where in-depth audits were performed, the MCGJ found the audits to be professional, and to contain specific and impactful recommendations to management and County leadership. Below are several examples of high-quality, in-depth internal audits performed by the A/C Department, wherein the County activity was examined relative to multiple aspects such as those related to the reliability and integrity of financial and operational information, and compliance with relevant laws and regulations. Depending on the activity, additional aspects were also examined. These internal audits include:

- **Public Works Department (Report 17-001, February 2017)** - An audit of accounting, record-keeping, and control processes due to, “deteriorating financial conditions of Special Districts and of the Road Fund.” The internal audit resulted in 19 Findings and accompanying Recommendations.

- **Purchase Card Program (Report 17-004, May 2017)** - An audit to assess the compliance of the card program with County purchasing policy, and the effectiveness and efficiency of the program overall. The internal audit resulted in 11 Findings and accompanying Recommendations.
- **Animal Services (Report 20-001, June 2020)** - An audit to evaluate finance, operations, performance, and compliance with safety requirements, and procedures. The internal audit resulted in five Findings and accompanying Recommendations.
- **Waste Disposal Services (Reports 18-002a, March 2018)** - Internal Audit conducted in order to assess the integrity of the financial information provided to the County by the waste management contractor Redrock Environmental, Redrock Environmental compliance with the provisions of the original waste management contracts, and the costs associated with contract amendments made in 2015. This internal audit resulted in five significant Findings and accompanying Recommendations, ultimately leading to public hearings and substantial revisions of the County's Solid Waste Management Contracts with the waste management contractor.

The examples above and their accompanying improvement recommendations to departmental and County leadership are exemplary of the highest levels of internal auditing and contributions to effective government. In each of these examples, significant findings were identified and recommendations for improvement were made. In turn, departmental management was given the opportunity to respond to the audit findings and implement those recommendations believed to be actionable - thus completing the value-added contribution of the internal audit process.

The examples noted above stand in stark contrast to those minor, less impactful internal audits performed by the A/C Department. The minor audits reviewed by the MCGJ during its investigation consisted largely of departmental petty cash audits and asset listings. Though important and necessary, these audits are minor and narrow in scope and therefore lack the transformational recommendations often associated with more in-depth internal auditing.

***Payroll Services Impacted*** At the time of the NEOGOV payroll subscription and subsequent implementation in June 2022, the NEOGOV payroll program was substantially lacking in full payroll functionality necessary to deliver reliable payroll services to the County and County employees. The County was not fully aware of the shortcomings of NEOGOV's payroll system at the time of its adoption. In addition, NEOGOV personnel did not fully understand the complexities of the payroll needs of the County. The difficulties involved in the conversion to the NEOGOV program were compounded by an insufficient level of parallel testing necessary prior to the conversion, as well as insufficient user training prior to and after the conversion. This resulted in circumstances resembling a *build-as-you-go* approach to the payroll system conversion, leading to payroll inaccuracies and inconveniences impacting many County employees. These issues were particularly evident with the Madera County Sheriff's Department. Payroll amounts were not deducted accordingly, which led to employees receiving inaccurate payroll amounts to some receiving no payments at all.

While many of the payroll system shortcomings have been and continue to be addressed through the efforts of the dedicated personnel of both the A/C Department and the Human Resources Department, the undue burden of the NEOGOV payroll conversion has adversely impacted the reputation of the A/C Department as well as its ability to fully carry out the wide range of its responsibilities.

## **Findings**

F1 The MCGJ finds that County departments and activities designated as selected for audit by utilization of the Risk Assessment worksheets are in most cases left unaudited, potentially resulting in continued risk to County operations.

F2 The MCGJ finds that County departments and activities planned to receive an audit in the Annual Audit Schedule in many cases do not align with County activities previously designated in the Risk Assessment worksheets, resulting in many high-risk designated activities remaining unaudited.

F3 The MCGJ finds that when in-depth internal audits are performed by the A/C Department, value-added Findings and Recommendations are made to management affording opportunities to improve the effectiveness and efficiency of government operations.

F4 The MCGJ finds that since the dissolution of the Internal Audit Committee as originally created by the BOS Resolution 2016-315, public visibility, and awareness of internal audit publications are minimized, thereby resulting in a clouded transparency of government operations.

F5 The MCGJ finds the County did not sufficiently understand and test the capability of NEOGOV's payroll program to deliver reliable and accurate payroll services to the employees of Madera County, resulting in payroll errors for many County employees.

F6 The MCGJ finds that the County and NEOGOV did not provide sufficient training necessary to implement the new payroll system effectively and efficiently, thereby compounding payroll and reporting errors.

F7 The MCGJ finds that the reputation of the Audit Controllers department was compromised resulting from the undue burden of the payroll conversion to NEOGOV, thereby adversely impacting the A/C Department's ability to fully execute the wide range of its responsibilities.

### **Recommendations**

R1 The MCGJ recommends that the A/C Department return to a robust utilization and application of the Risk Assessment worksheet to all County entities, with implementation by November 1, 2023.

R2 The MCGJ recommends that in preparing the Annual Audit Schedule, the A/C, with input from the Audit Committee, should demonstrate a more rigorous adherence to those County activities previously identified in the Risk Assessment worksheet by December 31, 2023.

R3 The MCGJ recommends that the A/C, with input from the Audit Committee, should establish and execute a minimum number of in-depth audits to be performed annually by December 31, 2023.

R4 The MCGJ recommends the A/C should publish on its webpage the results of all internal audits performed on County activities by December 31, 2023.

R5 The MCGJ recommends that prior to purchasing or subscribing to new computer software programs, the County adheres to the guidance provided by the 2015 Internal Control Guidelines of California stating: "Changes in software should be subject to extensive evaluation and testing in order to identify and manage risks associated with use."

R6 The MCGJ recommends that prior to initiating a computer software conversion plan, a training plan should be fully developed and fully implemented with all personnel expected to use the new software program. Both on and off-site training should be a mandatory component of the training plan.

R7 The MCGJ recommends that the A/C Department personnel should continue to work with HR and other departments to close the remaining gaps associated with the NEOGOV payroll conversion in order to exemplify the core values stated in the 2023 Madera County Strategic Plan: Professionalism, Loyalty, Accountability, Compassion, and Excellence.

### **Required Responses**

Pursuant to Penal Code Sections 933 and 933.05, the Madera County Grand Jury requests responses as follows from the elected County officials within 60 days:

Madera County of Board of Supervisors  
200 W 4th Street, 4th Floor  
Madera, CA 93637

Madera County Auditor/Controller  
200 W. 4th Street, 2nd Floor  
Madera, CA 93637.

Reports issued by the Grand Jury do not identify the individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury do not include the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.